

## Quadrant II – Notes

**Paper Code** : ECG102  
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### MEANING OF A TAX

A tax is a mandatory fee or financial charge levied by any government on an individual or an organization to collect revenue for developmental public works.

It is compulsory to be paid by the citizens who are liable to pay it.

Hence, refusal to pay a tax is a punishable offence. There is no direct quid-pro-quo between the tax payers and the public authority. i.e. the tax doesn't give any direct benefit to the one who pays it.

The government has been given the authority to collect taxes by the Indian Constitution. All the taxes that we pay are backed by laws passed by either the Parliament or the State Legislature.

### TYPES OF TAXES IN INDIA

India has two types of taxes, namely Direct Tax and Indirect Tax.

**1) Direct Taxes:** are those that are paid directly to the government. These taxes are levied directly on an individual and therefore can't be transferred to another entity or person. For e.g. Income Tax, Corporate tax.

**2) Indirect tax:** It is collected through one entity in the supply chain (usually a producer or retailer) and paid to the government, but it is passed on to the consumer as part of the purchase price of a good or service.

The consumer is ultimately paying the tax by paying more for the product. Therefore, the seller pays indirect taxes to the government and the same is transferred to the consumer. Some examples of indirect taxes that were earlier prevalent in India are Excise Duty, Customs Duties, Sales tax.

***However, all these indirect taxes have been replaced by the Goods and Service Tax or are rather incorporated into the GST since 2017.***

### MEANING OF CUSTOMS DUTIES

Customs duty is a form of indirect tax which is levied by the Central Govt. The Quantum or amount of Customs duty chargeable, depends upon the provisions of Customs Act 1962 and Customs Tariff Act 1975 passed by the Indian Parliament.

It is imposed at the time of both import and export of goods and services.

The tax which is imposed on the import of goods and services is known as Import duties and those which are charged on the export of goods and services are known as Export duties.

## **REASONS FOR LEVYING CUSTOMS DUTIES**

### **1) REVENUE GENERATION**

- Be it import or export duties, the aim of the Govt. to collect taxes is to earn or generate revenue. This acts as a source of development finance for the public sector.
- At times, the Govt. may also charge export duties for goods that have inelastic demand in the foreign countries. This means, the foreign country will definitely buy the goods even at a higher price. Thus, charging export duties serves as a major revenue to the Govt.

### **2) TO PROTECT DOMESTIC FIRMS/ MANUFACTURERS**

- Charging import duties may be used as an instrument for the protection of domestic industries. It is used to give an opportunity to the domestic industries to flourish and develop. This builds up the industrial growth of the nation.

### **3) TO RESTRICT IMPORTS OF LUXURIES**

- At times, the Govt. intends to charge high custom duties on the imports of luxury commodities so that people shift to the import of capital goods that in turn lead to the economic development of the nation.

## **TYPES OF CUSTOMS DUTIES**

- **Basic Custom Duty:**  
Basic custom duty is applicable on imported items that fall under the ambit of Section 12 of the Customs Act, 1962. These duties are levied at the rates prescribed in First Schedule to Customs Tariff Act, 1975, under the terms specified in Section 2 of the act. The levied rates may be standard or preferential as per the country of import.
- **Additional Customs Duty (Countervailing Duty (CVD)):**  
This duty is levied on imported items under Section 3 of Customs Tariff Act, 1975. It is equal to the Central Excise Duty that is levied on similar goods produced within India.
- **Anti-dumping Duty:**  
Anti-dumping duty may be imposed if the good being imported is at below fair market price, and is limited to the difference between export and normal price (dumping margin).
- **Safeguard Duty:**  
Safeguard duty is levied if the government feels that a sudden increase in exports can potentially damage the domestic industry.

- **Education Cess:**

It is an additional levy applied on goods by the Government to generate additional revenue to fund primary, secondary and higher education.

## **PRESENT STATE OF CUSTOMS DUTIES IN INDIA**

In the past few years, the Government of India brought a major change in the tax collection system of a nation. For this, a new concept came into existence is GST (Goods and Services Tax). It is a new tax collection system in which customer is required to pay when they are using any goods and services.

Previously tax system was quite complex as there are multiple taxes such as Central Excise, value-added tax or service tax, state tax, etc. which were imposed on goods and services. But now GST subsumed all taxes and there is now just one tax only.